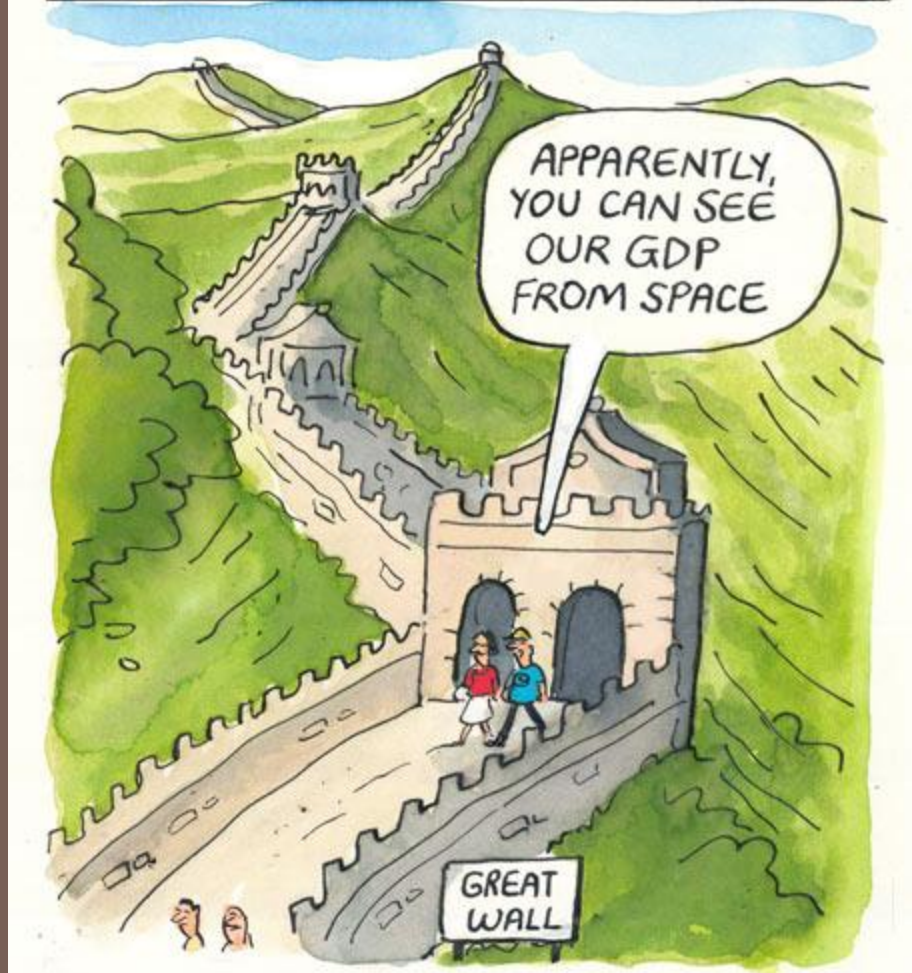


KipperWilliams



WHAT'S IN GDP?

# What is gross domestic product (GDP)?

- **IT IS AN AGGREGATE MEASURE**
- **Aggregate Supply:** **TOTAL** amount of goods and services in the economy produced at **ALL** possible price levels
- **Aggregate Demand:** **TOTAL** amount of goods and services in the economy purchased at **ALL** possible price levels.
  - **DIRECTLY RELATED TO GDP!!!!**

# What is gross domestic product (GDP)?

- Currency value of all **final** goods and services produced within a country in a given period
- Total income of a nation (CIRCULAR FLOW!!!)
- Measure of nation's economic well-being
- Measure of a nation's economic growth from one period to the next
- Most commonly calculated via **expenditures**

# Consumption (C)



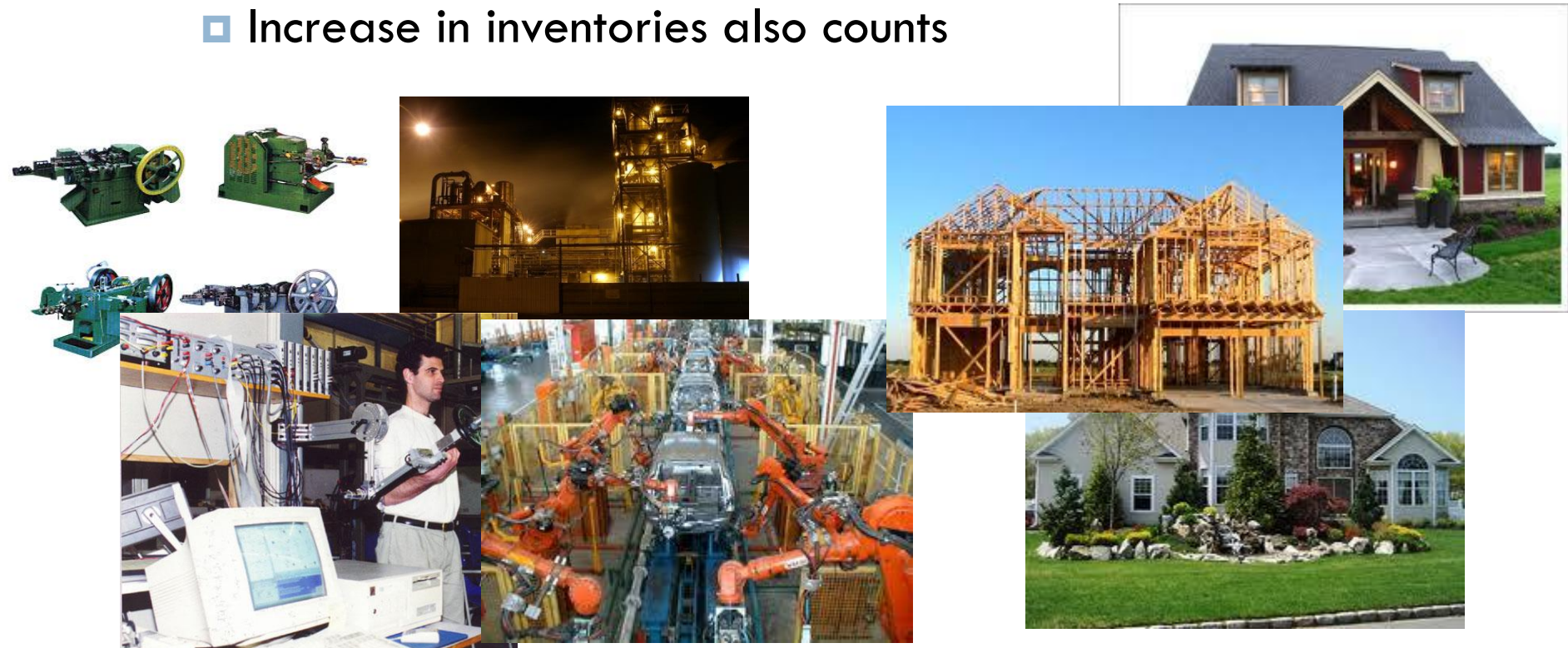
- \$ amount of goods and services purchased by **households**
  - ▣ ONLY counts goods produced **in the current year**
  - ▣ Examples: food purchases, vacations, haircuts, clothing, movies, etc





# Investment (I)

- **\$ amount spent by business on productive resources and purchases of NEW HOMES by consumers!**
  - ▣ New machines, new factories, research
  - ▣ Increase in inventories also counts



# Government Spending (G)

- \$ amount spent on federal, state, and local government provided goods and services
  - ▣ Ex: roads, education, military, parks, public libraries, etc



# Net Exports (NX)

- Exports = goods we ship to other countries



- Imports = goods we bring in from other countries



- **Exports – Imports = Net Exports**



$$GDP = C + I + G + NX$$

If any one letter increases, *ceteris paribus*, GDP increases

C + I + G + NX



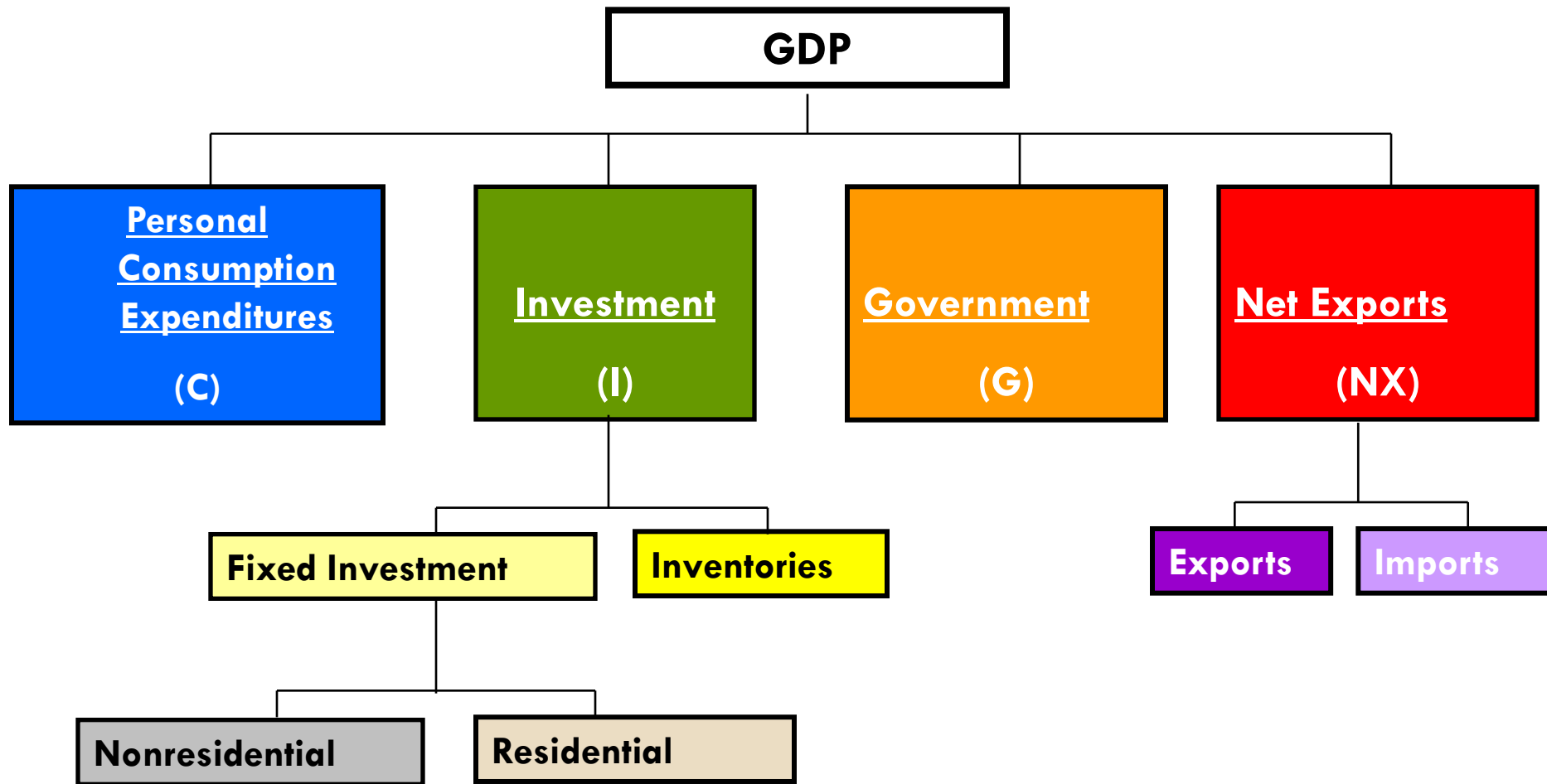


# What's not included in GDP?



- ❑ Intermediate goods
- ❑ Used goods
- ❑ Underground production (black market)
- ❑ Financial transactions
- ❑ Household production
- ❑ Transfer payments

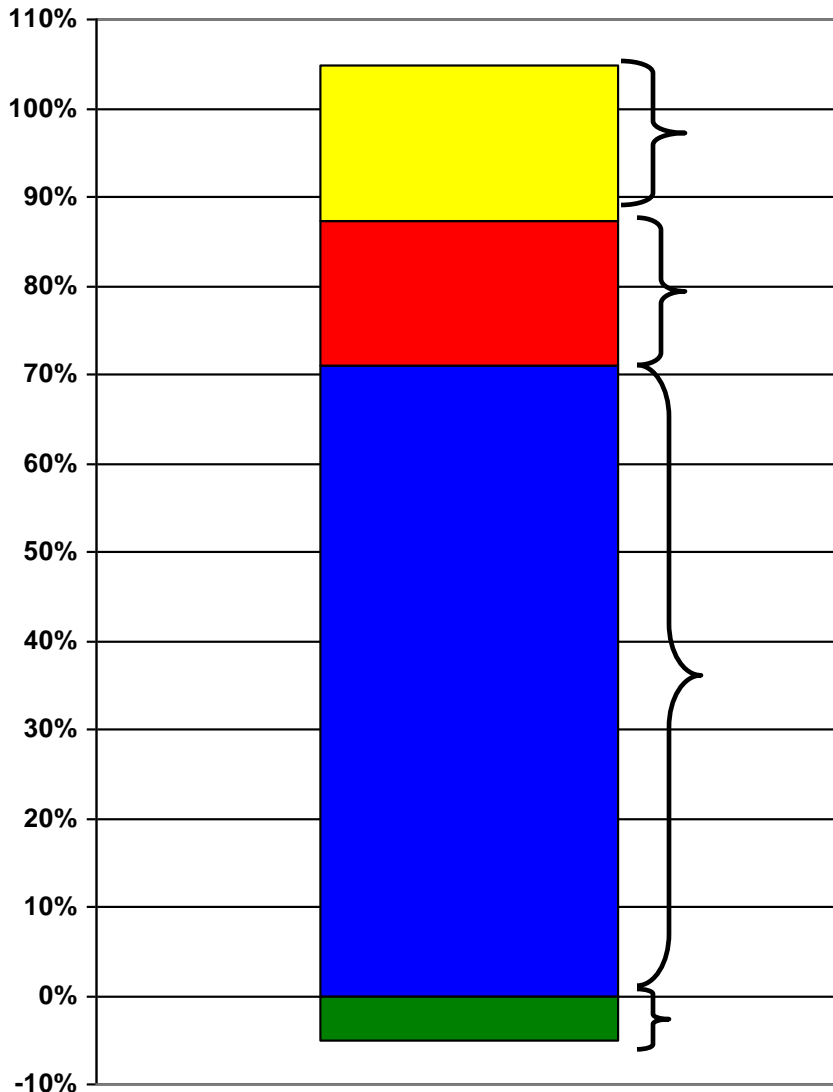
# What are the components of GDP?



$$\text{GDP} = C + I + G + NX$$

# How much of GDP is each component?

Average Percent of GDP since 2003



<u>Component</u>	<u>% of GDP</u>
------------------	-----------------

Government	19%
------------	-----

Investment	16%
------------	-----

Consumption (PCE)	70 %
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Net Exports	-5%
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<b>GDP</b>	<b>100%</b>
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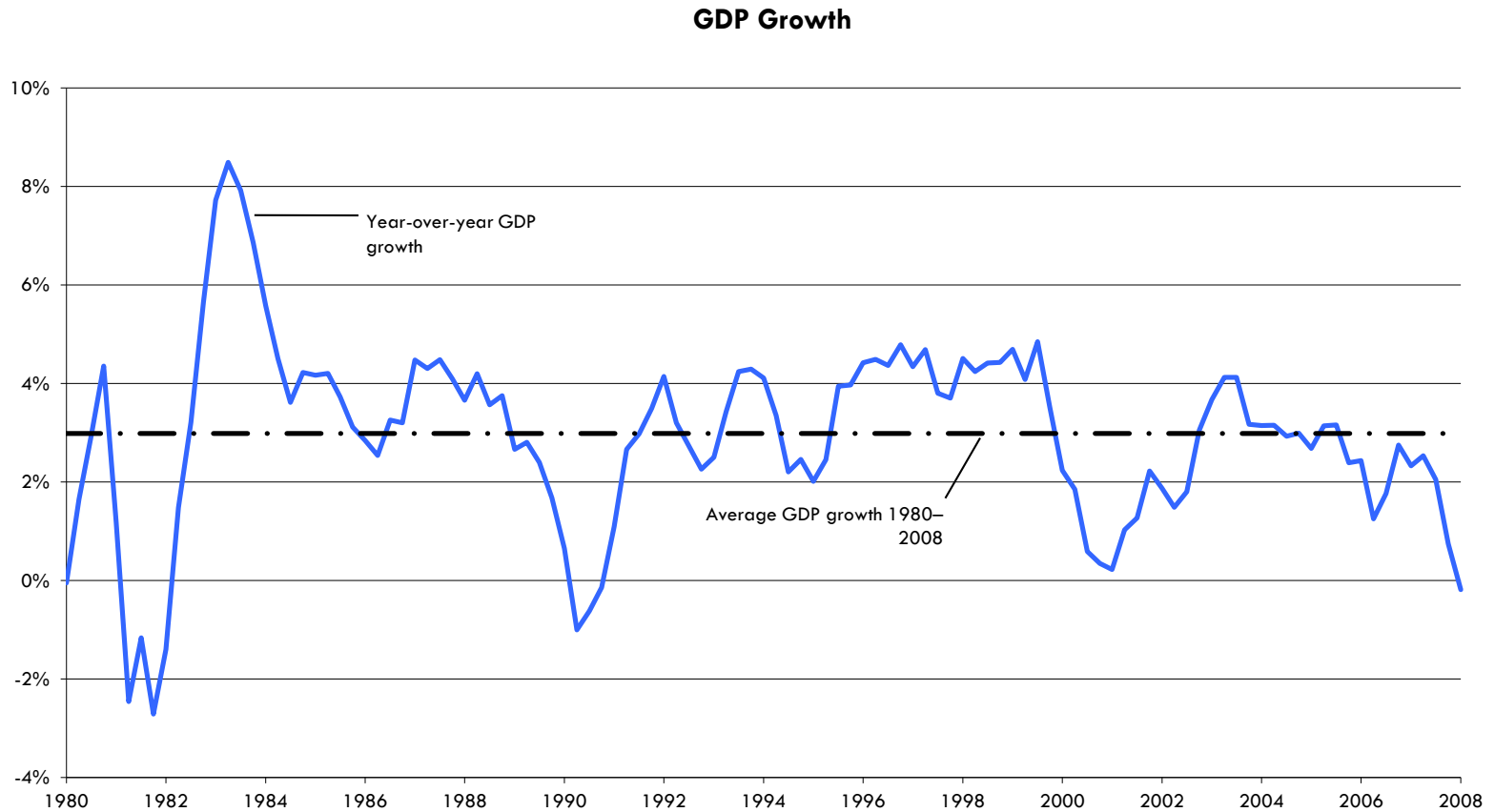
Source: Bureau of Economic Analysis

# Let's practice





# What is a good rate of growth?



# What GDP does not tell us

- ❑ Does not measure income distribution
- ❑ Does not measure non-monetary output or transactions (e.g., barter, household activities)
- ❑ Does not take into account desirable externalities, such as leisure or environment
- ❑ Does not measure social well-being
- ❑ Correlates to standard of living but is not a measure of standard of living

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**Real GDP** 1/27/2012

+2.8% in Q4 2011

**Personal Income** 1/30/2012

+0.5% in December 2011

**Int'l Trade in Goods and Services** 2/10/2012

Deficit increased to \$48.8 billion in December 2011(p) from \$47.1 billion in November 2011 (r).

**U.S. Int'l Transactions** 12/15/11

Current-account deficit decreased \$14.4 billion to \$110.3 billion in Q3 2011(p).

News Release Schedule

## Of Interest...

Latest Release: Int'l Trade in Goods and Services

February Survey of Current Business now available

BEA Director on CSPAN's Washington Journal





# Real and nominal GDP

- When GDP is computed in the current year's prices, rising prices (inflation) can make it difficult to determine if a change in GDP from one year to the next is due to the country's production of more goods and services or to increases in the price level.
  - ▣ Nominal GDP: GDP that is not adjusted for inflation. The value of goods and services in current prices.
  - ▣ Real GDP: The dollar price of GDP in a base year's price, used to compare changes in GDP from one year to the next. An increase in real GDP is an increase in economic growth.